

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED DECEMBER 31, 2003



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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Quarter Ended December 31, 2003

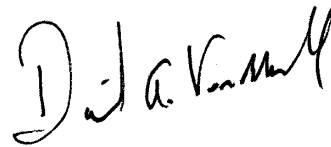
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STATEMENT OF PURPOSE

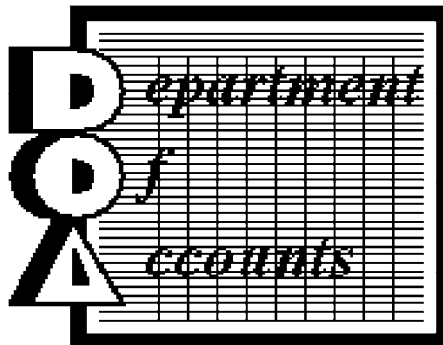
The *Code of Virginia* requires that the Department of Accounts (DOA) monitor and account for all transactions involving public funds. In order to carry out this mandate, the Department uses a variety of measures, including automated controls, statistical analyses, pre-audits and post-audits, staff studies and reviews of reports issued by the Auditor of Public Accounts. When taken as a whole, these measures provide an important source of information on the degree of agency compliance with Commonwealth accounting and financial management policies, internal controls, procedures, regulations, and practices.

The Comptroller's *Report on Statewide Financial Management and Compliance* (the *Quarterly Report*) is a summary of measures used by DOA to monitor transactions involving public funds and report findings to the Governor, his Cabinet, and other senior State officials. The *Quarterly Report* uses exception reporting and summary statistics to highlight key findings and trends. The Department also provides additional detailed financial management statistics for agencies and institutions of higher education.

This *Quarterly Report* includes information for the quarter ended December 31, 2003, and comparative FY 2003 data. Some information in the report is for the quarter ended September 30, 2003, which is the most current data available. An annual review of past due receivables, for the fiscal year ended June 30, 2003, is also included.



David A. Von Moll, CPA, CGFM
Comptroller



COMPLIANCE

Auditor of Public Accounts Reports - Executive Branch Agencies

Agency audit reports issued by the Auditor of Public Accounts (APA) may contain findings because of noncompliance with state laws and regulations. Agencies may also have internal control findings considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal control that, in the Auditor's judgement, could adversely affect the agency's ability to safeguard assets or record, process, summarize, and report financial data consistent with the assertions of management.

Each agency must provide a written response that includes a Corrective Action Workplan (CAW) to the Department of Planning and Budget, the Department of Accounts, and the agency's Cabinet Secretary when its audit report contains one or more audit findings. Workplans must be submitted within 30 days of receiving the audit report. Commonwealth Accounting Policies and Procedures (CAPP) manual, Topic 10205, *Agency Response to APA Audit*, contains instructions and guidance on preparing the workplan.

Audit Reports – Quarter Ended December 31, 2003

The APA issued 11 separate reports covering 11 agencies, offices, boards, and commissions for the Executive Branch agencies listed on the following table. The last column indicates whether the CAW has been received as of the date of this publication for each agency with audit findings. Note that in some cases, the CAW may not have been received because it is not yet due.

	New Findings	Repeat Findings	Total Findings	CAW Received
Administration				
Virginia Public Broadcasting Board	0	0	0	N/A
Commerce and Trade				
Virginia Racing Commission	0	0	0	N/A
Virginia Tourism Authority	0	0	0	N/A
Department of Minority Business Enterprise	4	0	4	Yes
Tobacco Indemnification and Revitalization Commission	0	0	0	N/A

	Findings	Findings	Findings	Received
Education				
Virginia Polytechnic Institute and State University	0	0	0	N/A
Elected Officials				
Office of the Attorney General	0	0	0	N/A
Health and Human Resources				
Comprehensive Services for At-Risk Youth and Families	0	0	0	N/A
Public Safety				
Department of Alcoholic Beverage Control	0	0	0	N/A
Transportation				
Department of Motor Vehicles	0	1	1	Yes
Virginia Port Authority	2	0	2	Yes

No audit reports were received during the quarter for agencies and institutions that report to the Secretaries of Finance, Natural Resources, and Technology.

Agency Findings – Quarter Ended December 31, 2003

The following agencies had one or more findings contained in their audit report. Short titles assigned by APA are used to describe the finding, along with a brief summarization of the comments. The audit reports contain the full description of each finding.

Commerce and Trade

Department of Minority Business Enterprise

1. Contract Management Policies and Procedures: The Department should develop policies and procedures to properly maintain procurement and contract documentation for reviewing and approving payments.
2. Cell Phone Policies and Procedures: The Department needs to strengthen the policies and procedures concerning the use of cell phones. Certain employees were regularly exceeding the minutes allowed by their plan. Procedures are not in place to review cell phone bills and verify the usage is appropriate.

Department of Minority Business Enterprise – continued

3. Compliance with Prompt Payment Act: The Department was not in compliance with the Act for six of the twelve months in fiscal year 2003.
4. Consolidate Fiscal and Procurement Operations with Another Agency: The Department's internal controls can be strengthened by consolidating fiscal and procurement functions with another agency. This would ensure continuity of sound internal controls in the event of future employee turnover.

Transportation

Virginia Port Authority

1. Comply with the Davis Bacon Act: The Port Authority did not comply with the provisions of the Davis Bacon Act for construction contracts entered into under the new federal Port Security grant. Contract costs of \$433,135 are questioned by the audit.
2. Strengthen Travel Controls: The Port Authority did not properly document the information required when reimbursing employees for business meals and entertainment expenses. Several employees connected to the internet while traveling and did not state the reason for doing so. In addition, itemized, detailed receipts did not always document business meal or entertainment expenses.

Department of Motor Vehicles

1. Assess Needs and Develop Policies and Procedures Over the Fuels Tax Program: **As previously reported**, Motor Vehicle's new automated system does not have fully adopted processing procedures to take maximum advantage of the new shared system. The Fuels Tax Division does not have formal policies and procedures addressing transaction processing. In addition, the new system does not provide reliable reports containing information relating to accounts receivable, non-filers, and discrepancies.



Compliance Monitoring

Exception Registers

The Commonwealth Accounting and Reporting System (CARS) contains the Commonwealth's official accounting records. Therefore, State accounting policy requires that each agency reconcile its internal accounting records to CARS at least monthly and submit the results of the reconciliation via an exception register.

DOA closely monitors exception register status, evaluates exceptions, and posts correcting entries in CARS. Exception registers for September, October, and November were due 10/28/03, 11/25/03 and 12/30/03, respectively.

Exception Registers Late or Outstanding

As of January 27, 2004

	Sep	Oct	Nov
Christopher Newport University	1/22/04	1/27/04	O/S

KEY: O/S - Exception Register is Outstanding
DATE - The date received by DOA

Disbursement Processing

During the quarter ended December 31, 2003, DOA deleted, at the submitting agency's request, 53 payments that were awaiting disbursement from the vendor payment file. These included duplicate payments, payments with incorrect vendors or addresses, and payments with incorrect amounts. This type of transaction may point to areas where improved agency internal accounting controls should be evaluated.

Thirty-four agencies requested deletes during the quarter. Agencies that requested more than four vendor payment deletes during the quarter are as follows:

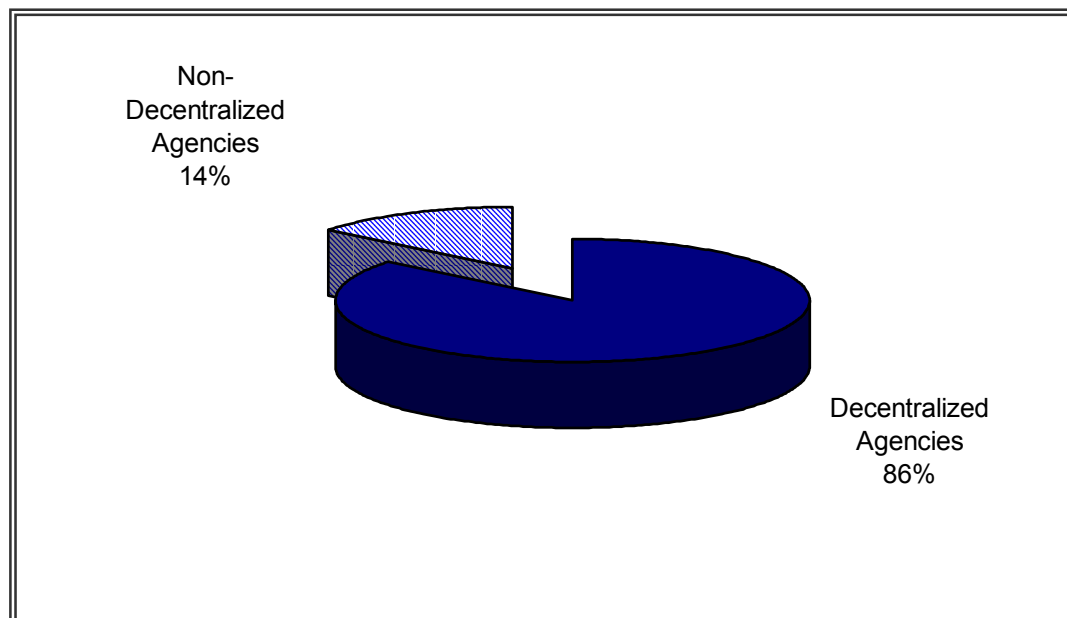
- ◆ Department of Transportation

Paperwork Decentralization

The Commonwealth has decentralized the pre-auditing of most disbursements to individual agencies under a grant of delegated authority from the State Comptroller. Prior to the implementation of the program, over two million document sets (batches) were sent to the central repository each year. This program reduces the flow of documents from these agencies to the central repository in Richmond.

The overall quality of the State pre-audit program is monitored through the use of quality control reviews conducted by DOA staff. Results of these reviews are provided to the agency with corrective action recommendations. The great majority of problems encountered involve documentation inconsistencies, which should be easily corrected. Travel vouchers continue to be the primary source of all problems found.

Vouchers Processed *Quarter Ended December 31, 2003*



Note: Totals include vouchers processed by decentralized higher education institutions.

Decentralized Agencies

Compliance reviews were conducted for five decentralized agencies during the quarter. The agencies were evaluated for compliance with State expenditure policies and procedures. Vouchers are selected for review based on a random sample designed to ensure 95 percent confidence in the conclusions.

The Exception Rate is determined by dividing the number of compliance findings by the number of vouchers reviewed. The primary reasons for an Exception Rate exceeding 4 percent are provided below.

Compliance Rating Legend	
> 9.9%	Unacceptable Performance
7.0% to 9.9%	Minimal Performance
4.0% to 6.9%	Satisfactory Performance
1.0% to 3.9%	Good Performance
< 1.0%	Exceptional Performance

Decentralized Agency	Vouchers Reviewed	Compliance Findings	Exception Rate	Performance Measurement
<i>Administration</i>				
Department of Human Resource Management	136	9	6.6%	Satisfactory
<i>Health and Human Resources</i>				
Department of Medical Assistance Services	210	7	3.3%	Good
<i>Natural Resources</i>				
Department of Environmental Quality	297	4	1.3%	Good
<i>Public Safety</i>				
Virginia Correctional Enterprises	259	12	4.6%	Satisfactory
<i>Transportation</i>				
Department of Aviation	255	2	0.8%	Exceptional

Note: No reviews were performed during the quarter for agencies that report to the Secretaries of Commerce and Trade, Education, Finance, and Technology.

Agencies With Performance Ratings Lower Than “Good”

Department of Human Resource Management -- Satisfactory Performance – Eight of the nine compliance findings are related to travel vouchers. The following represent the majority of these findings:

Travel Vouchers

- ◆ Hotel lodging cost exceeds the established allowable rate (4)
- ◆ Travel expenses are not shown separately for each day (2)
- ◆ Inadequate documentation (2)

Virginia Correctional Enterprises -- Satisfactory Performance – The majority of the compliance findings are related to travel vouchers and the Small Purchase Charge Card program as follows:

Travel Vouchers

- ◆ Overtime meal reimbursement did not identify the location of the employee's overtime meal which determines the amount of reimbursement (1)
- ◆ Overtime meal reimbursement not allowed due to travel status (1)
- ◆ Agency head approval is required when more than three agency staff travel to the same conference – transaction on purchasing card, not travel voucher (1)
- ◆ Inadequate documentation (3)

Moving and Relocation Voucher

- ◆ The tenure agreement and expense summary sheet documents are required for the reimbursement of moving and relocation expenses (1)

Small Purchase Charge Card Program

- ◆ SPCC Master Log requires signature of the cardholder to attest to the validity of expenditures (1)
- ◆ Missing Master Log monthly reconciliation (1)
- ◆ Inadequate documentation (3)



Non-Decentralized Agencies

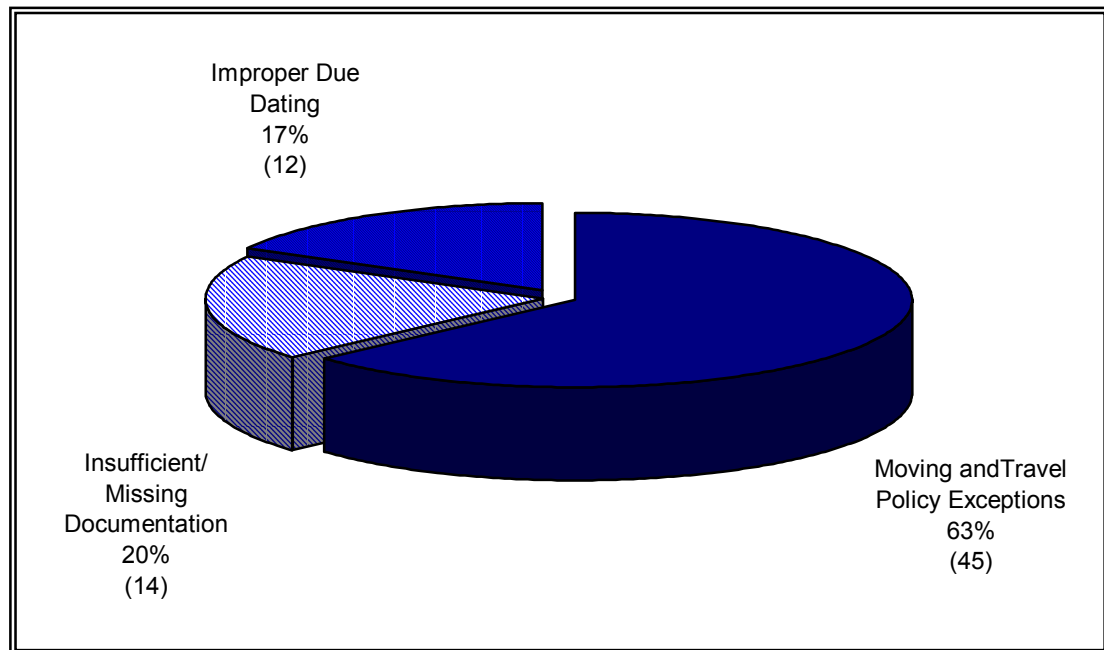
Pre-audit of disbursements is conducted at the Department of Accounts for certain agencies that have not demonstrated the capability to manage a delegated program (i.e., have not met statewide decentralization management standards), agencies for which the cost of delegation is greater than the efficiency benefits to be gained through decentralization, or those few agencies, primarily those comprised of elected

officials and cabinet officers, for whom this additional safeguard is warranted.

During the quarter, DOA reviewed 133 non-decentralized agencies. A total of 1,067 non-travel disbursement batches and 277 travel disbursement batches were reviewed, disclosing 71 exceptions that were resolved prior to releasing the transactions for payment.

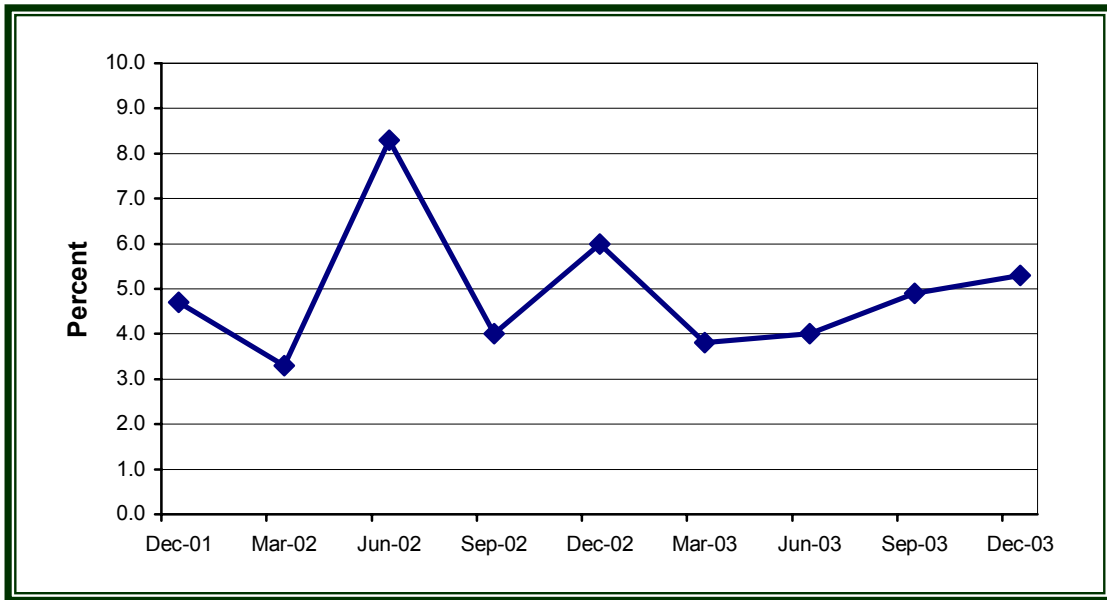
Disbursement Review and Compliance Findings Non-Decentralized Agencies

Quarter Ended December 31, 2003



The following chart compares compliance findings as a percentage of total batches reviewed among non-decentralized agencies, by quarter, for the past two years.

**Total Quarterly Disbursement
Review Exceptions**
December 2001 – December 2003



Prompt Payment Compliance

The Prompt Payment Act requires that State agencies and institutions pay for goods and services by the required payment due date. The reporting required by the Code of Virginia Section 2.2-4356 is being met by the information presented here. This section details the number and dollar amounts of late payments by secretarial area, institutions

and agencies, and the total amount of interest paid. Agencies and institutions that process 50 or more vendor payments during a quarter are reported as not meeting Prompt Pay requirements if fewer than 95 percent of their payments are processed by the required due date.

Statewide Prompt Payment Performance Statistics

	<i>Quarter Ending December 31, 2003</i>		<i>Fiscal Year 2004 To Date</i>		<i>Comparative FY 2003 to Date</i>	
	Late	Total	Late	Total	Late	Total
Number of Payments	8,284	645,147	15,512	1,266,341	17,600	1,211,097
Dollars (in thousands)	\$30,111	\$1,181,511	\$50,569	\$2,443,831	\$117,264	\$2,170,873
Interest Paid on Late Payments				\$4,359		\$5,760
Current Quarter Percentage of Payments in Compliance	98.7%					
Fiscal Year to Date Percentage of Payments in Compliance	98.8%					
Comparative FY 2003 to Date Percentage of Payments in Compliance	98.6%					



Prompt Payment Performance by Secretarial Area

Quarter Ended December 31, 2003

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	98.7%	97.1%
Commerce and Trade	98.8%	98.6%
Education*	98.8%	97.5%
Elected Officials	98.3%	92.8%
Finance	99.4%	99.7%
Health and Human Resources	98.7%	97.1%
Independent Agencies	98.6%	98.6%
Judicial	99.5%	99.9%
Legislative	99.7%	99.9%
Natural Resources	99.2%	98.7%
Public Safety	98.8%	98.9%
Technology	97.7%	98.7%
Transportation*	98.0%	95.6%
Statewide	98.7%	97.5%

Prompt Payment Performance by Secretarial Area

Fiscal Year 2004

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.1%	98.2%
Commerce and Trade	98.9%	98.9%
Education*	98.8%	98.0%
Elected Officials	97.1%	94.8%
Finance	99.6%	99.7%
Health and Human Resources	98.6%	97.6%
Independent Agencies	98.8%	99.1%
Judicial	99.6%	99.9%
Legislative	99.6%	99.8%
Natural Resources	99.3%	99.0%
Public Safety	98.9%	98.8%
Technology	97.9%	97.8%
Transportation*	98.6%	96.7%
Statewide	98.8%	97.9%

* Statistics include those provided independently by Virginia Port Authority, Virginia Polytechnic Institute and State University, University of Virginia, Radford University, James Madison University, Old Dominion University, Virginia Commonwealth University, George Mason University, and the College of William and Mary in Virginia and may include local payments. These agencies and institutions are decentralized for vendor payment processing.

For the quarter ended December 31, 2003, the following agencies and institutions that processed more than 50 vendor payments during the quarter were below the 95 percent prompt payment performance standard.

Prompt Payment Compliance Rate
Agencies Below 95%
Quarter Ended December 31, 2003

Agency	Late Payments	Total Payments	Payments in Compliance
Education			
Tidewater Community College	168	2,668	93.7%
Gunston Hall Plantation	38	167	77.3%
Judicial			
Virginia Criminal Sentencing Commission	3	51	94.1%
Health and Human Resources			
Virginia Tobacco Settlement Foundation*	32	470	93.2%
Public Safety			
St. Brides Correctional Center	22	412	94.7%

* Payment processing performed by the Department of Health.

Prompt Payment Compliance Rate
Agencies Below 95%
Fiscal Year 2004

Agency	Late Payments	Total Payments	Payments in Compliance
Education			
Gunston Hall Plantation	44	272	83.8%
Elected Officials			
Attorney General and Department of Law	49	917	94.7%
Health and Human Resources			
Southeastern Virginia Training Center	438	1,949	77.5%
Public Safety			
Central Region Correctional Field Units	100	1,464	93.2%

Prompt Payment Explanations

Explanations for low prompt payment compliance rates for the second quarter of FY 2004 and for the fiscal year to date were provided by the following agencies. Not all agencies elected to provide written explanations.

Gunston Hall Plantation has a lack of staffing assistance for clerical functions, causing them to miss prompt payment standards.

The ***Virginia Criminal Sentencing Commission*** took longer than anticipated to verify and approve three invoices during the month of December. Procedures have been modified to ensure compliance with the Prompt Payment Act in the future.

Payment processing at the ***Office of the Attorney General*** over the past year has been problematic from time to time in certain areas which endured the highest number of staff reductions and turnover, particularly in the Law Library, which had 100% turnover in just eight months. There is now a new employee in the Library who has received training in payment processing. Additionally, training is being planned for all staff responsible for payment processing, which will enable the office to meet prompt pay standards.

Southeastern Virginia Training Center experienced cash flow problems during the first quarter of FY 2004 due to

problems with changes to billing systems. Prompt payment rates were above the standard for the second quarter.

Prompt pay at ***Tidewater Community College*** was significantly affected by personnel turnover. The new employees did not clearly understand the lead time required for total processing from the point of data entry to check issuance. In addition, errors were made in calculating due dates. Further training has been provided to the staff to ensure compliance.

The ***Virginia Tobacco Settlement Foundation*** contracts with the Virginia Department of Health to process all financial payments. Due to an extended medical leave taken by a Virginia Department of Health staff member who processes payments for the Virginia Tobacco Settlement Foundation, a Virginia Department of Health temporary contractual employee was used to process payments. Unfamiliarity with processing procedures resulted in a number of late payments during the month of October. While the November and December prompt payment rate exceeded 95 percent, the number of late payments during October was sufficient enough to drop the rate to 93.2 percent for the quarter.



E-Commerce

The primary goal of the Department of Accounts' electronic commerce initiative is to reduce the number of state issued checks by using more efficient electronic payment processes. Tools such as Financial Electronic Data Interchange (EDI), Payroll Direct Deposit, and the Small Purchase Charge Card (SPCC) are more reliable and cost effective than traditional paper checks. Electronic payments are also more secure because of the use of encryption devices and other security measures. In addition to these tools, the use of electronic earnings notices through the Payline Opt Out program further reduces paper processing and related costs.

EDI, Direct Deposit, SPCC and Payline Opt Out are best practices that demonstrate effective financial management, particularly during difficult economic times. They increase efficiency in processing and eliminate wasteful use of time, paper, printing, and postage for both large and small vendor payments, payroll, and employee travel reimbursement. Agencies and institutions are expected to embrace these practices to the fullest extent possible. On the following pages, agencies and institutions are identified if e-commerce statistics indicate that they are not fully utilizing these tools.

Statewide E-Commerce Performance Statistics

<i>Quarter Ended December 31, 2003</i>				<i>Comparative Quarter Ended December 31, 2002</i>
	<i>E-Commerce</i>	<i>Total</i>	<i>Percent</i>	<i>Percent</i>
Number of Payments	585,987	1,041,757	56.2%	55.2%
Payment Amounts	\$5,314,470,020	\$6,256,625,587	84.9%	84.0%
<i>Fiscal Year 2004 to Date</i>				<i>Comparative FY 2003 to Date</i>
	<i>E-Commerce</i>	<i>Total</i>	<i>Percent</i>	<i>Percent</i>
Number of Payments	1,148,268	2,044,732	56.2%	54.8%
Payment Amounts	\$9,823,925,846	\$11,638,498,533	84.4%	82.7%

Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the second quarter of FY 2004 was \$487.7 million (11.7 percent) more than the same quarter last year. The number of trading partner accounts

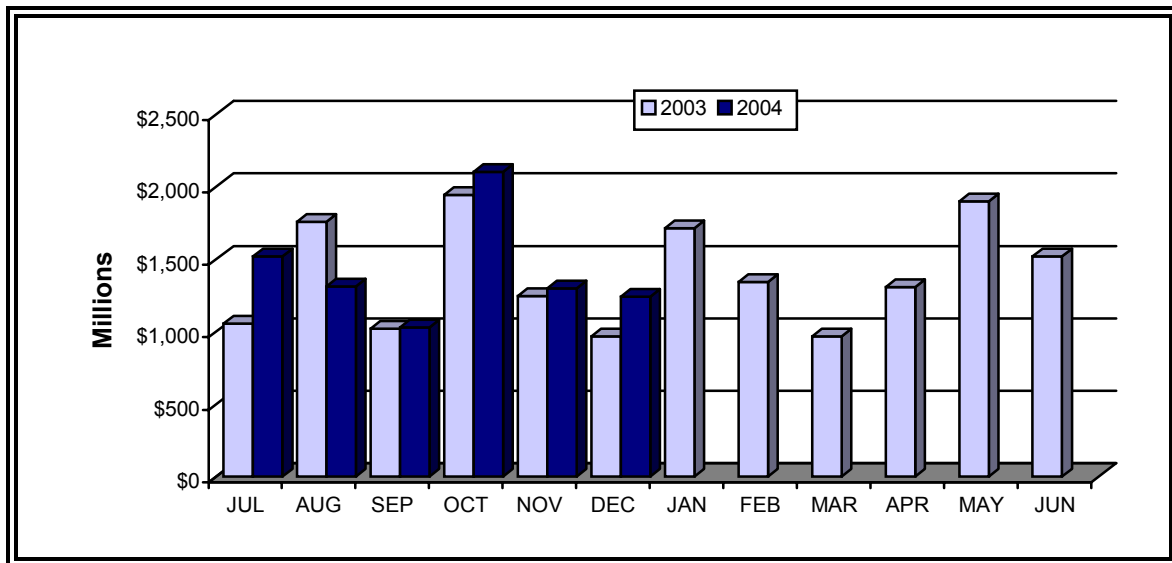
increased by 168 percent from December 2002. The largest portion of this increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments.

Financial EDI Activity

<i>Financial EDI Activity</i>	<i>Quarter Ended December 31, 2003</i>	<i>Fiscal Year 2004 to Date</i>	<i>Comparative FY 2003 to Date</i>
Number of Payments	34,844	63,760	40,366
Amount of Payments	\$4,643,354,030	\$8,502,844,422	\$7,991,043,765
Number of Invoices Paid	159,528	306,257	246,993
Estimated Number of Checks Avoided	61,976	117,848	88,143
Number of Trading Partner Accounts as of 12-31-03		16,823	6,262

EDI Payment Comparison

FY 2003 – FY 2004



Employee EDI

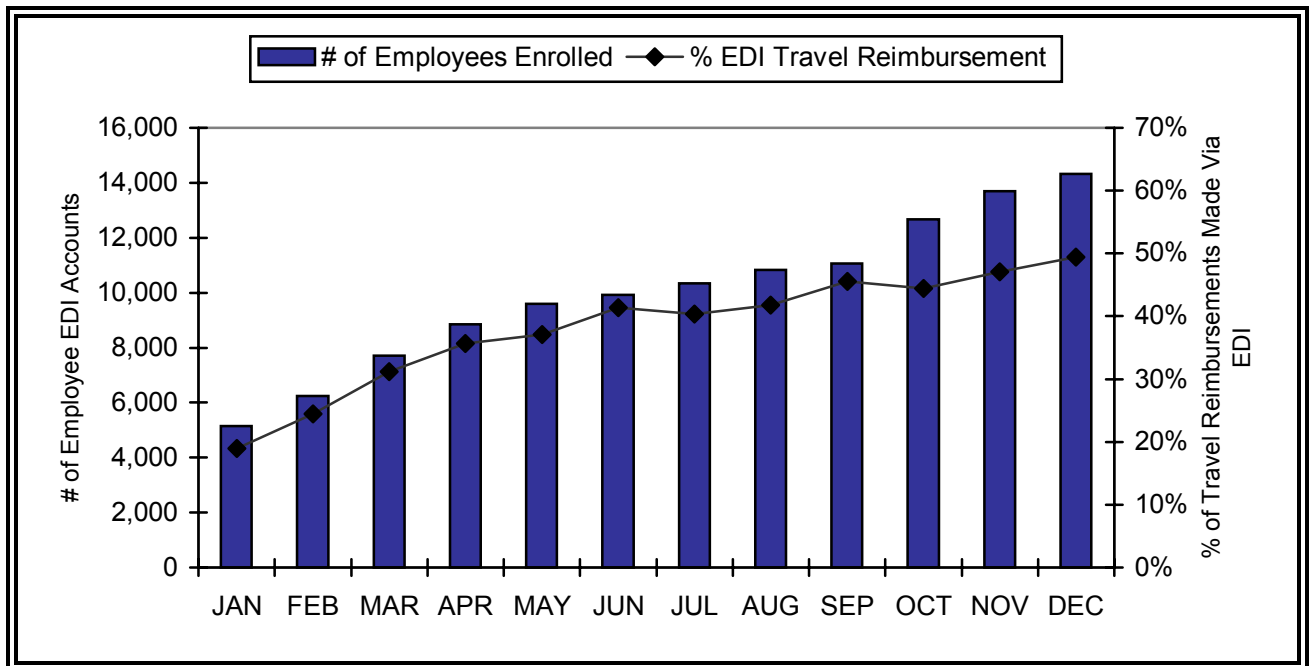
Expansion of the Employee EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI.

Although participation among certain agencies has increased, many agencies

have failed to enroll employees in EDI as required by law. In accordance with Section 4-5.06g of the Appropriation Act, the Comptroller will charge agencies \$1 for each travel reimbursement check issued in lieu of Employee EDI beginning with the second quarter of FY 2004. Agencies are expected to take action to enroll applicable employees in the EDI program and thus avoid the fees altogether.

Employee EDI Growth

January 2003 – December 2003



The following table lists by secretarial area the percentage of travel reimbursements that were made via EDI versus the number of checks that were written for travel reimbursements during the quarter. *The statistics by secretarial area include all travel reimbursements, whether for state or non-state employees. The agency-specific statistics include only reimbursements made to state employees.*

**Travel Reimbursement
Employee EDI Performance
by Secretarial Area**
Quarter Ended December 31, 2003

Secretarial Area	Percent	Reimbursement Checks Issued
Administration	48.1%	167
Commerce and Trade	77.3%	679
Education*	42.6%	3,690
Elected Officials	53.7%	119
Finance	92.3%	49
Health and Human Resources	64.1%	3,172
Independent Agencies	81.3%	255
Judicial	8.1%	3,254
Legislative	54.2%	427
Natural Resources	43.6%	989
Public Safety	26.2%	5,211
Technology	8.8%	104
Transportation*	38.3%	489
Statewide	46.9%	18,605
<i>Fiscal Year 2004 to Date</i>		
Statewide	44.9%	35,001
<i>Comparative Fiscal Year 2003 to Date</i>		
Statewide	12.8%	54,093

* Statistics do not include agencies and institutions decentralized for vendor payment processing and the Department of Transportation, which currently processes travel reimbursements through petty cash.



The following table lists agencies with Employee EDI participation rates below 50 percent that issued more than 50 travel reimbursement checks during the quarter.

**Agency Employee* EDI Performance
Utilization Below 50 Percent**

Agency	Percent	Reimbursement Checks Issued
Administration		
Department of Veterans Services	0.0%	66
Education		
Lord Fairfax Community College	47.6%	65
Virginia Western Community College	46.2%	57
Paul D Camp Community College	41.2%	60
Southwest Virginia Community College	30.6%	93
Danville Community College	24.2%	125
Norfolk State University	21.4%	297
Virginia Highlands Community College	21.4%	66
Tidewater Community College	20.3%	192
Virginia Military Institute	13.9%	87
Southside Virginia Community College	0.0%	150
J Sargeant Reynolds Community College	0.0%	137
Thomas Nelson Community College	0.0%	134
Elected Officials		
Attorney General and Department of Law	46.8%	99
Health and Human Resources		
Department of Social Services	47.4%	455
Eastern State Hospital	29.7%	52
Southeastern Virginia Training Center	18.5%	75
Judicial		
Combined District Courts	0.9%	233
Juvenile and Domestic Relations District Courts	0.4%	258
Supreme Court	0.3%	729
Circuit Courts	0.0%	463
General District Courts	0.0%	298
Magistrate System	0.0%	247
Court of Appeals of Virginia	0.0%	58
Legislative		
House of Delegates	40.3%	126

Agency	Percent	Reimbursement Checks Issued
Natural Resources		
Department of Game and Inland Fisheries	0.9%	791
Public Safety		
Virginia Correctional Enterprises	46.7%	73
Department of Corrections – Division of Community Corrections	38.4%	333
Department of Corrections – Division of Institutions	37.3%	104
Wallens Ridge State Prison	7.9%	82
Department of Military Affairs	7.1%	52
Department of Fire Programs	3.0%	327
Indian Creek Correctional Center	2.8%	104
Department of Juvenile Justice	1.3%	910
Department of State Police	0.0%	1,665
St Brides Correctional Center	0.0%	107
Technology		
Virginia Information Technologies Agency	1.0%	104
Transportation		
Department of Motor Vehicles	30.5%	444

* Agency statistics include travel reimbursements for state employees only.



Direct Deposit

During the second quarter of FY 2004, 367,365 checks were avoided using direct deposit. Agencies are expected to

take proactive steps to improve participation rates, particularly for wage employees.

Direct Deposit Performance by Secretarial Area

Quarter Ended December 31, 2003

Secretarial Area	Direct Deposit % of Salary Employees	Direct Deposit % of Wage Employees
Administration	88.6%	81.4%
Commerce and Trade	94.0%	75.1%
Education	93.7%	40.0%
Elected Officials	95.8%	62.5%
Finance	94.0%	64.4%
Health and Human Resources	82.0%	66.0%
Independent Agencies	96.0%	78.0%
Judicial	95.0%	38.3%
Legislative	94.1%	63.2%
Natural Resources	96.0%	57.0%
Public Safety	86.1%	68.0%
Technology	92.1%	84.0%
Transportation	82.0%	58.4%
Statewide	87.0%	49.2%

Comparative

Quarter Ended December 31, 2002

Statewide	85.9%	44.7%
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Statewide Salaried Direct Deposit Performance

Quarter Ended December 31, 2003

Salaried Direct Deposit Participation	87.0%
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Salaried Direct Deposit Below 80 Percent

Agency	Percent	Number of Employees
<i>Health and Human Resources</i>		
Southwestern Virginia Training Center	79.6%	457
Southwestern Virginia Mental Health Institute	79.5%	522
Southern Virginia Mental Health Institute	76.3%	165
Hiram W. Davis Medical Center	72.2%	184
Central State Hospital	70.1%	726
Piedmont Geriatric Hospital	66.6%	318
Southside Virginia Training Center	64.2%	1,374
Central Virginia Training Center	59.3%	1,533
Virginia Center for Behavioral Rehabilitation	53.9%	63
<i>Public Safety</i>		
Lunenburg Correctional Center	79.7%	276
Southampton Correctional Center	79.4%	78
Eastern Region Correctional Field Units	78.8%	213
Greensville Correctional Center	77.3%	829
Augusta Correctional Center	76.6%	411
Fluvanna Women's Correctional Center	75.1%	358
Mecklenburg Correctional Center	74.5%	311
Southampton Reception and Classification Center	74.5%	251
Brunswick Correctional center	74.2%	380
Bland Correctional Center	72.5%	281
Dillwyn Correctional Center	69.4%	259
Buckingham Correctional Center	66.3%	345
Nottoway Correctional Center	65.0%	426
<i>Transportation</i>		
Department of Transportation – Fredericksburg District	79.4%	668
Department of Transportation – Richmond District	78.4%	1,191
Department of Transportation – Staunton District	76.7%	822
Department of Transportation – Lynchburg District	71.9%	773
Department of Transportation – Salem District	71.4%	962
Department of Transportation – Culpeper District	69.9%	658
Department of Transportation – Bristol District	68.4%	1,046

Statewide Wage Direct Deposit Performance

Quarter Ended December 31, 2003

Wage Direct Deposit Participation

49.2%

Wage Direct Deposit Below 40 Percent

Agency	Percent	Number of Employees
Commerce and Trade		
Department of Forestry	26.9%	89
Education		
Thomas Nelson Community College	34.6%	257
Paul D. Camp Community College	32.2%	93
Central Virginia Community College	31.0%	132
New River Community College	30.9%	181
Dabney S. Lancaster Community College	30.7%	78
Piedmont Virginia Community College	26.5%	290
Norfolk State University	25.4%	848
Radford University	25.0%	765
Southwest Virginia Community College	23.7%	353
Lord Fairfax Community College	22.1%	293
John Tyler Community College	20.2%	405
Virginia Western Community College	18.9%	169
Wytheville Community College	17.5%	222
Rappahannock Community College	16.8%	107
Richard Bland College	14.5%	48
Danville Community College	13.7%	153
Mountain Empire Community College	12.5%	279
Northern Virginia Community College	12.2%	964
Longwood University	7.0%	623
Southside Virginia Community College	7.0%	157
Virginia Highlands Community College	5.4%	166
Health and Human Resources		
Southside Virginia Training Center	35.8%	106
Central Virginia Training Center	0.0%	102
Independent Agencies		
State Corporation Commission	20.0%	10

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
<i>Judicial</i>		
Combined District Courts	38.4%	26
General District Courts	29.8%	231
<i>Public Safety</i>		
Department of Emergency Management	39.6%	63
Department of Fire Programs	14.4%	104



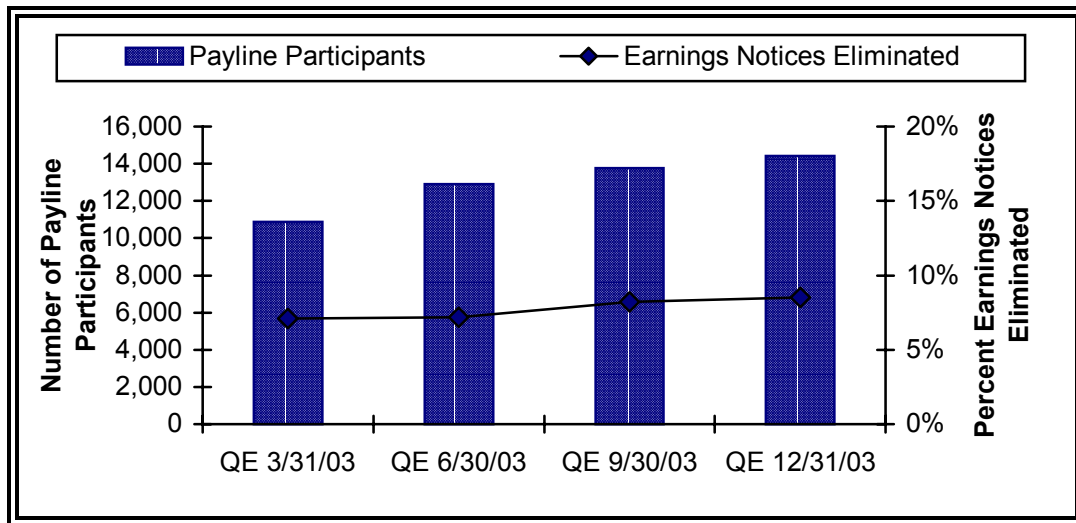
Payroll Earnings Notices

Elimination of earnings notices associated with direct deposit is an additional method for increasing the benefits of electronic payments. Employees are currently able to obtain enhanced information online using the web-based Payline system.

In addition to increasing direct deposit participation, agencies and institutions are expected to encourage employees to enroll in Payline and discontinue receipt of centrally printed earnings notices. Since inception in November 2002, the Commonwealth has eliminated the printing of approximately 130,000 earnings notices. However, statewide participation rates remain low.

Quarterly Payline and Earnings Notice Opt Out Participation

March 2003 – December 2003



The following table lists participation among all statewide employees in Payline and the Opt-Out initiative by secretarial area.

**Payline and Earnings Notice Opt-Out Participation
by Secretarial Area**

Quarter Ended December 31, 2003

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	42.7%	27.3%
Commerce and Trade	41.4%	24.7%
Education	11.3%	6.7%
Elected Officials	22.9%	18.0%
Finance	61.3%	34.1%
Health and Human Resources	19.1%	8.4%
Independent Agencies	35.7%	20.2%
Judicial	3.2%	1.1%
Legislative	29.1%	25.8%
Natural Resources	39.5%	27.8%
Public Safety	11.9%	4.7%
Technology	38.3%	29.0%
Transportation	14.8%	4.8%
Statewide	17.0%	8.5%
<i>Comparative</i>		
<i>Quarter Ended December 31, 2002</i>		
Statewide	13.2%	3.6%

* Employees must participate in Direct Deposit and Payline in order to opt out of receiving centrally printed earnings notices.

Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Listed below are agencies where less than two percent of earnings notices have been eliminated by employees participating in the Opt-Out program. Only agencies and institutions with 25 or more employees are included in this report.

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 12/31/03 Payday
<i>Education</i>		
Longwood University	1.6%	508
Christopher Newport University	1.4%	1,082
Danville Community College	1.4%	132
Tidewater Community College	1.4%	1,459
Norfolk State University	1.3%	975
Central Virginia Community College	1.2%	157
Piedmont Virginia Community College	1.2%	165
Virginia School for the Deaf and the Blind at Staunton	1.2%	158
Virginia School for the Deaf, Blind and Multi-Disabled at Hampton	1.2%	127
Wytheville Community College	1.2%	116
Eastern Shore Community College	1.1%	60
New River Community College	1.1%	185
Radford University	1.1%	1,164
Rappahannock Community College	1.0%	107
Northern Virginia Community College	0.9%	1,276
John Tyler Community College	0.8%	266
Southside Virginia Community College	0.3%	159
Thomas Nelson Community College	0.3%	350
Frontier Culture Museum of Virginia	0.0%	52
Paul D. Camp Community College	0.0%	100
Virginia Highlands Community College	0.0%	121
<i>Elected Officials</i>		
Attorney General and Department of Law	1.6%	231
<i>Health and Human Resources</i>		
Southside Virginia Training Center	1.9%	868
Hiram W. Davis Medical Center	1.0%	138
Virginia Center for Behavioral Rehabilitation	0.0%	25

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 12/31/03 Payday
Judicial		
Public Defender Commission	1.9%	344
Juvenile and Domestic Relations District Courts	0.7%	564
Combined District Courts	0.5%	182
Magistrate System	0.2%	402
General District Courts	0.1%	901
Circuit Courts	0.0%	163
Virginia State Bar	0.0%	82
Court of Appeals of Virginia	0.0%	64
Legislative		
Division of Capitol Police	1.1%	80
Public Safety		
Augusta Correctional Center	1.9%	314
Virginia Correctional Enterprises	1.8%	137
Deerfield Correctional Center	1.6%	156
Haynesville Correctional Center	1.6%	264
Deep Meadow Correctional Center	1.5%	282
Eastern Region Correctional Field Units	1.4%	164
Fluvanna Women's Correctional Center	1.4%	257
Department of Corrections/Adult Community Services	1.3%	1,144
Wallens Ridge Correctional Center	1.2%	363
Buckingham Correctional Center	0.9%	221
Greensville Correctional Center	0.9%	613
Dillwyn Correctional Center	0.8%	176
James River Correctional Center	0.8%	220
Southampton Correctional Center	0.8%	183
Western Region Correctional Field Units	0.8%	398
Bland Correctional Center	0.7%	204
Red Onion Correctional Center	0.7%	382
Mecklenburg Correctional Center	0.6%	226
Brunswick Correctional Center	0.5%	277
Nottoway Correctional Center	0.5%	273
Virginia Correctional Center for Women	0.5%	168
Lunenburg Correctional Center	0.0%	221
Powhatan Correctional Center	0.0%	270
Powhatan Reception and Classification Center	0.0%	95
Southampton Reception and Classification Center	0.0%	62

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 12/31/03 Payday
<i>Transportation</i>		
Department of Transportation – Richmond District	1.9%	911
Department of Transportation – Bristol District	1.8%	694
Department of Transportation – Northern Virginia District	1.7%	910
Department of Transportation – Culpeper District	1.2%	456
Department of Transportation – Hourly	0.7%	170



Small Purchase Charge Card (SPCC) and Increased Limit (Gold) Card

Two purchasing charge card programs offer State agencies and institutions alternative payment methods that improve administrative efficiency by consolidating invoice and payment processing for purchases of less than \$50,000. Use of the purchasing charge cards decreases the number of checks issued and the associated administrative costs of processing invoices. Suppliers benefit from expedited receipt of payments and reduced billing costs.

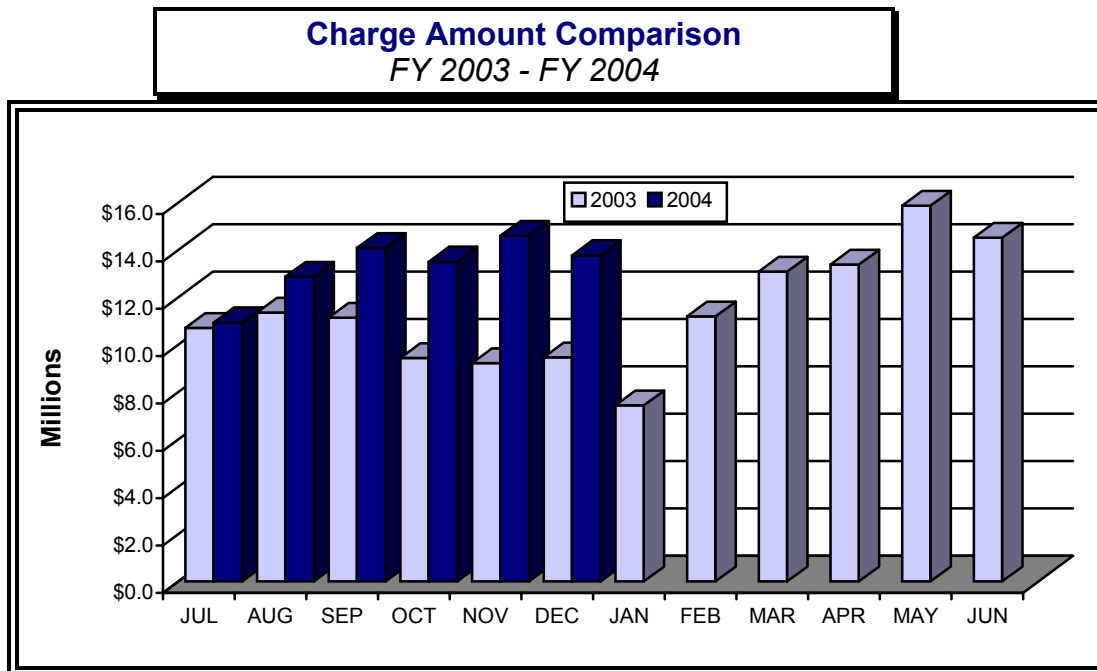
The Small Purchase Charge Card continues to be used for purchases under \$5,000. Agencies are strongly encouraged to obtain a Gold Card for use by a procurement professional for purchases in the \$5,000 to \$50,000 range.

The total amount charged on SPCC and Gold cards during the second quarter of FY 2004 increased by \$13.8 million or 49 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended December 31, 2003	Fiscal Year 2004 To Date	Comparative Fiscal Year 2003 To Date
Amount of Charges	\$41,926,156	\$79,876,485	\$61,400,183
Estimated Number of Checks Avoided	113,624	221,142	189,418
Total Number of Participating Agencies	192	192	193
Total Number of Cards Outstanding	10,923	10,923	10,471

The following chart compares charge activity for FY 2004 to activity for FY 2003.



SPCC Utilization Compliance

Maximum use of the SPCC program, in conjunction with other e-commerce initiatives, is essential to the statewide effort to reduce the costs associated with paying for goods and services for the Commonwealth. The tables on the following pages list SPCC participation by secretarial area and identify those agencies that are not maximizing charge card use and the associated cost savings. Agencies that are not utilizing the Gold card to the fullest extent will also be identified in future issues of this *Quarterly Report*.

The statewide SPCC utilization rate has increased only slightly over the past year. Several efforts are underway to increase utilization and to coordinate SPCC and eVA usage. In a joint effort by DOA, DGS, and American Express, vendors currently registered on eVA are being encouraged to accept the card as payment and vendors who currently accept the card are being encouraged to register with eVA. In addition, the Comptroller will begin assessing the \$1 charge to agencies in accordance with Section 4-5.06g of the Appropriation Act based on underutilization during the second quarter of FY 2004. Agencies are expected to use purchasing cards for transactions with all participating vendors (i.e., vendors who accept the American Express card) and thus avoid the fee altogether.

Statewide SPCC Performance

Quarter Ended December 31, 2003

Percentage Utilization for Eligible Transactions	77%
<i>Comparative Quarter Ended December 31, 2002</i>	
Percentage Utilization for Eligible Transactions	72%



SPCC Utilization by Secretarial Area

Quarter Ended December 31, 2003

Secretarial Area	Payments in Compliance ⁽¹⁾	Non-Compliant Transactions ⁽²⁾
Administration	77%	838
Commerce and Trade	75%	1,432
Education*	84%	5,340
Elected Officials	63%	167
Finance	71%	253
Health and Human Resources	61%	9,648
Independent Agencies	54%	674
Judicial	44%	1,637
Legislative	85%	112
Natural Resources	93%	580
Public Safety	74%	6,076
Technology	51%	208
Transportation*	83%	7,252
Statewide	77%	34,217

* Statistics do not include agencies and institutions decentralized for vendor payment processing.

- (1) **“Payments in Compliance”** represents the percentage of purchases made from participating SPCC vendors using the purchasing card.
- (2) **“Non-Compliant Transactions”** represents the number of small purchases from participating SPCC vendors where the purchasing card was not used for payment.



**Agency SPCC Performance
Utilization Below 70 Percent**

Agency	Payments in Compliance	Non-Compliant Transactions
Commerce and Trade		
Virginia Employment Commission	45%	636
Department of Labor and Industry	8%	114
Education		
Tidewater Community College	66%	654
Norfolk State University	57%	666
Christopher Newport University	54%	759
New River Community College	50%	193
Virginia School for the Deaf and the Blind at Staunton	45%	150
Virginia State University/Cooperative Extension and Agricultural Research Services	13%	768
Finance		
Department of Taxation	67%	168
Health and Human Resources		
Central Virginia Training Center	69%	256
Department of Health	66%	2,391
Southeastern Virginia Training Center	56%	193
Hiram W. Davis Medical Center	56%	81
Department of Social Services	51%	1,379
Northern Virginia Mental Health Institute	42%	177
Eastern State Hospital	29%	669
Northern Virginia Training Center	11%	345
Independent Agencies		
State Lottery Department	64%	145
State Corporation Commission	0%	398
Judicial		
Public Defender Commission	65%	112
Courts (combined under Supreme Court)	39%	1,415

Agency	Payments in Compliance	Non-Compliant Transactions
Public Safety		
Department of Military Affairs	65%	337
Central Region Correctional Field Units	64%	99
Virginia Correctional Enterprises	59%	736
Department of State Police	55%	618
Deerfield Correctional Center	52%	53
Nottoway Correctional Center	48%	125
Virginia Correctional Center for Women	22%	157
Department of Corrections – Division of Institutions	0%	279
Technology		
Virginia Information Technologies Agency	52%	199



SPCC Payment Compliance

Agencies and institutions participating in the SPCC program are required to submit payments via EDI to the SPCC vendor by the 14th of each month. Failure to pay the correct amount when due jeopardizes the Commonwealth's

contractual relationship with the purchasing card vendor and may result in suspension of an agency's charge card program. The following chart lists agencies more than three days late in submitting their payments.

Agency Name	Oct	Nov	Dec
Administration			
Department of Veterans Services	X	X	X
Education			
Dabney S Lancaster Community College	X	X	
Gunston Hall Plantation	X		
Patrick Henry Community College	X		
Science Museum of Virginia		X	
Southwest Virginia Community College	X		
Elected Officials			
Attorney General and Department of Law	X	X	X
Health and Human Resources			
Virginia Board for People with Disabilities	X		X
Independent			
Virginia College Savings Plan		X	
Virginia Retirement System	X		
Legislative			
Senate of Virginia			X
Public Safety			
Commonwealth's Attorneys' Services Council	X		
Department of Corrections – Division of Community Corrections	X		
Department of Military Affairs			X
Greenville Correctional Center			X
Technology			
Virginia Information Technologies Agency	X		
Transportation			
Department of Transportation – Charlottesville District	X		

Travel Charge Card

The Commonwealth of Virginia has contracted with American Express (AMEX) to provide employees with a means of charging reimbursable travel and related expenses while conducting official state business. Unlike the SPCC program, in which the agency directly receives and pays a summarized bill for all cardholders, each cardholder is personally responsible for all charges placed on the travel card and for paying the bill on time.

A Special Report released by the Auditor of Public Accounts in November 2003 presented several recommendations for improving the program, including closer monitoring of charge and payment activity.

One of the major concerns is the timely payment of card statements. Delinquent accounts result in higher costs to the contractor and ultimately threaten the

viability of the Commonwealth's travel charge card program. The contract provides for the following actions on delinquent accounts:

- ◇ 30 days past due – noted on statement
- ◇ 60 days past due – separate notice plus 2.75% delinquency charge assessed
- ◇ 90 days past due – additional 2.25% delinquency charge assessed
- ◇ > 90 days past due - privileges may be suspended and further action may be taken to cancel the account.

A joint memo from the State Comptroller and the Director of DGS Division of Purchases and Supply, dated March 7, 2003, advised agencies of the existence of delinquent accounts and stressed the importance of improved oversight. The following table identifies the number of delinquent card accounts by agency as of December 2003, and the total amounts past due.

Travel Charge Card Program

As of December 2003

Agency	Number of Delinquent Accounts	Amount (in Dollars)		
		60 Days Past Due	90 - 120 Days Past Due	> 150 Days Past Due
Administration				
Department of Human Resource Management	1		198	
Commerce and Trade				
Department of Agriculture and Consumer Services	1	585		
Department of Labor and Industry	1	653		
Education				
Clinch Valley College	1	259		
College of William and Mary	6	1,957	631	19
George Mason University	2	523	105	
James Madison University	6	558	36	33
Longwood University	7	6,252	1,181	

Agency	Number of Delinquent Accounts	Amount (in Dollars)		
		60 Days Past Due	90 - 120 Days Past Due	> 150 Days Past Due
Norfolk State University	7	1,004	236	1,121
Old Dominion University	8	2,856	610	
Radford University	1	5	85	
Thomas Nelson Community College	2	42		
University of Virginia	19	4,165	440	1,272
University of Virginia Medical Center	2	658	1,612	
Virginia Commonwealth University	7	1,681		603
Virginia Military Institute	2	1,036		
Virginia Polytechnic Institute and State University	22	2,925	452	49
Virginia State University	4	1,849	980	2,066
Wytheville Community College	1		399	
Elected Officials				
Attorney General	2	2,664		
Finance				
Department of Taxation	1	46		
Health and Human Resources				
Department of Health	3	735	37	245
Department of Medical Assistance Services	1	639		
Department of Rehabilitative Services	5	784	39	
Department of Social Services	10	2,065	798	1,816
Independent				
State Corporation Commission	1	29	242	
Virginia Retirement System	1	503		
Legislative				
Auditor of Public Accounts	1	61		
Natural Resources				
Department of Environmental Quality	1	11		
Department of Game and Inland Fisheries	1	393		
Department of Historic Resources	1	793	650	
Public Safety				
Department of Criminal Justice Services	1		53	
Department of Fire Programs	1	45		
Transportation				
Department of Motor Vehicles	6	1,037		368
Department of Transportation	2	879		

Payroll Controls

PMIS/CIPPS Payroll Audit

During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 423,888 salaried pay transactions and 244,600 wage pay transactions. The comparison is performed following each payday and is designed to identify discrepancies between authorized salary/wage amounts in PMIS and amounts paid in CIPPS. There were 2,258 new exceptions noted statewide during the quarter, with an overall exception rate of 0.38 percent.

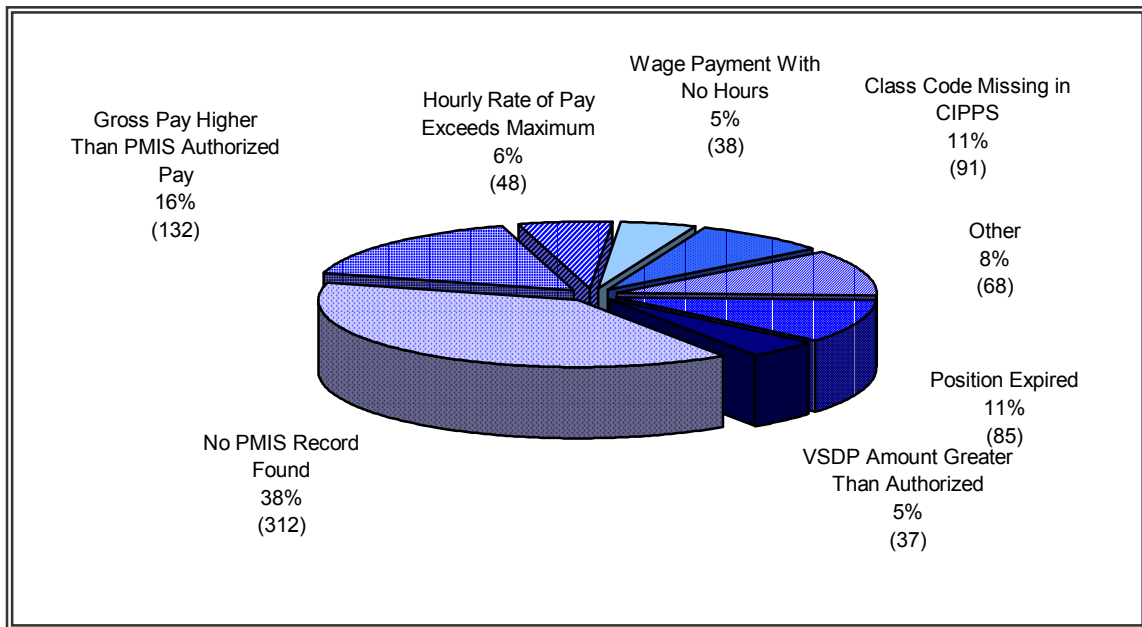
The statewide salaried payroll exception rate was 0.54 percent and the wage payroll exception rate was 0.11 percent. During this quarter, 43 employee paychecks were reduced to recover

\$13,441.77 in overpayments.

The largest single cause of exceptions is agency failure to complete the salary increase authorization process by updating PMIS salary amounts *prior* to paying the increased salary amount in CIPPS. The PMIS authorization is an important internal control over payroll processing. Such exceptions can largely be avoided through timely PMIS data entry by agency Human Resource staff. Although segregation of these Human Resource and Payroll functions is an effective internal control, coordination and communication between agency Human Resource and Payroll staffs is essential.

Payroll Audit Exception Report

Quarter Ended December 31, 2003



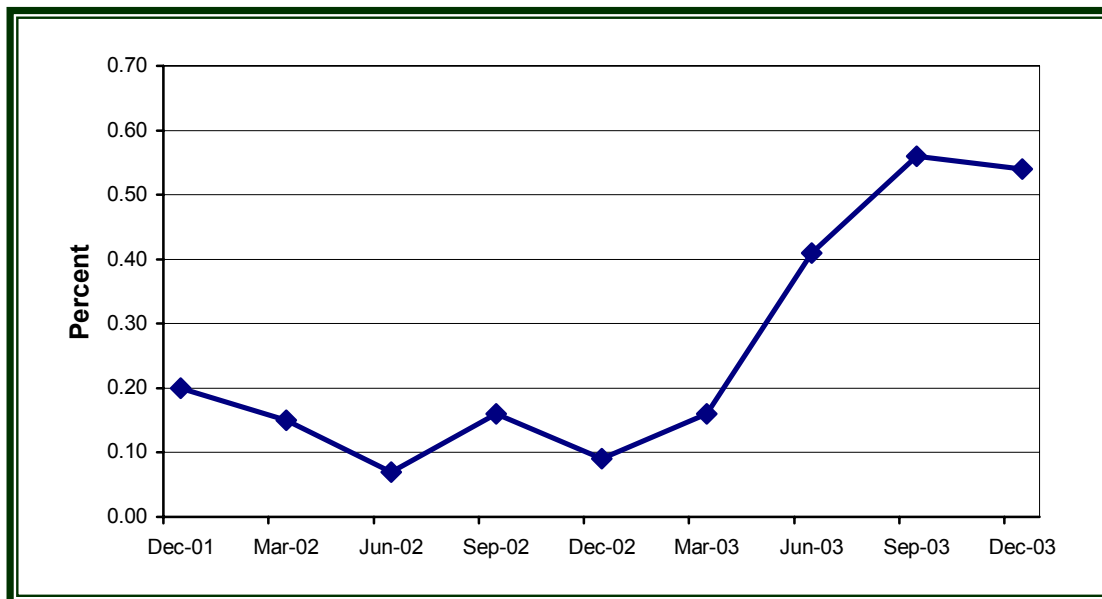
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Effective with the quarter ending June 30, 2003, the number of reported salaried exceptions increased due to refinements in audit procedures. The increase was not due to significant changes in agency performance. The refinements are designed to improve accuracy in payroll and benefit calculations by increasing agency awareness of the importance of timely personnel system updates and proper payroll payment classification. Agencies are reported below if the percentage of payroll exceptions to salaried or wage payments exceeds twice the statewide average for the quarter.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments
Quarter Ended December 31, 2003

<u>Agency</u>	<u>Exceptions as a % of Salaried Payments</u>
Christopher Newport University	1.66%
Total Salaried Payroll Exceptions for the Quarter	
	0.54%

The following chart compares payroll exceptions as a percentage of salaried payments by quarter for the past two years.

Total Quarterly Salaried Exceptions
December 2001 – December 2003



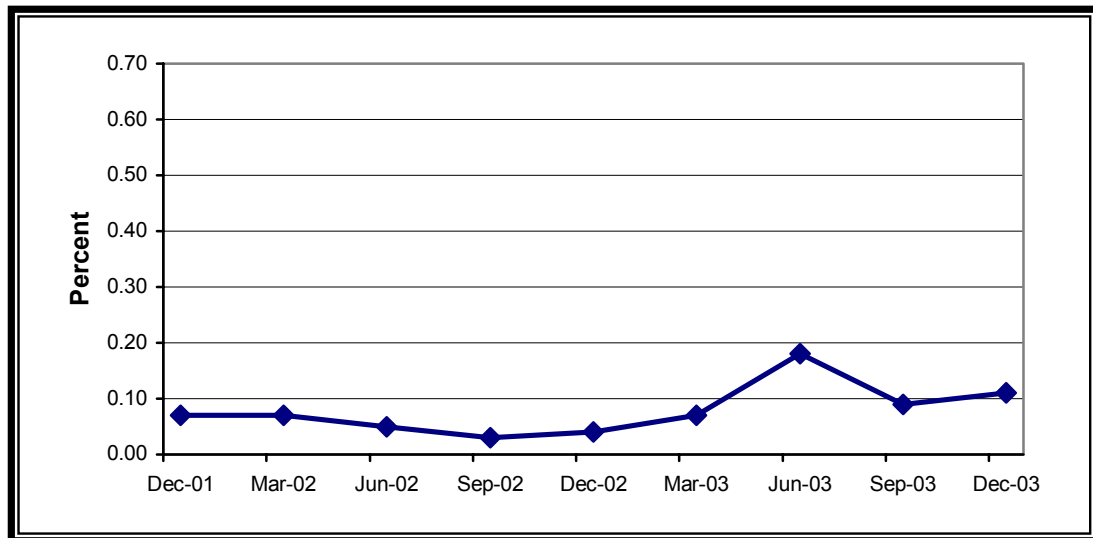
Note: Increases since the last quarter of FY 2003 were caused by refinements in audit procedures. See narrative explanation, above.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended December 31, 2003

Agency	Exceptions as a % of Wage Payments
Virginia Correctional Enterprises	3.50%
Department of Veterans Services	16.92%
Wage Payroll Exceptions for the Quarter	
	0.11%

The following chart compares payroll exceptions as a percentage of wage payments by quarter for the past two years.

Total Quarterly Wage Exceptions
December 2001 – December 2003



PMIS/CIPPS Exceptions

Agencies are required to submit explanations and/or reconciliations for the differences identified on the CIPPS/PMIS Unresolved Exceptions Report, within 6 weeks of notification. The following table lists those agencies having exceptions that remain unresolved six weeks after receipt of the report.

<u>Agency</u>	<u>Unresolved Exceptions</u>
<i>Administration</i>	
Department of General Services	1
<i>Commerce and Trade</i>	
Virginia Employment Commission	4
<i>Education</i>	
Christopher Newport University	5
Norfolk State University	5
J. Sargeant Reynolds Community College	2
Northern Virginia Community College	2
Piedmont Community College	2
<i>Health and Human Resources</i>	
Central State Hospital	31
Department of Rehabilitative Services	4
Department of Social Services	2
<i>Public Safety</i>	
Coffeewood Correctional Center	9
Fluvanna Women's Correctional Center	4
Department of Military Affairs	2
Department of State Police	1
Powhatan Correctional Center	1
<i>Transportation</i>	
Department of Transportation – Northern Virginia District	2
Department of Transportation – Fredericksburg District	2
Department of Transportation – Central Office	1



Payroll Certification

Agencies are required to calculate, verify, and authorize the amount to be disbursed for each payroll. This responsibility can be met through the timely preparation of agency payrolls, request and review of automated edit reports, and correction of errors prior to requesting actual payroll runs which result in payroll disbursements. This process is referred to as "payroll certification." Payroll certification serves as a critical internal control to ensure payroll disbursements are accurate and authorized. Agency payroll certifications are monitored centrally to ensure that agencies conduct this important function.

Differences between the amount calculated by the payroll system based on agency input and the amount certified by the agency to be disbursed based on edit reports are identified in automated reports provided to agencies. Agencies are required to submit explanations and/or reconciliations of the differences identified on this report by the end of the day following receipt of the report. Differences result from agency payroll errors, miscalculations, online certification data entry errors, and inappropriately high volumes of changes following certification. Although differences do not result in undetected

incorrect payments, such errors are avoidable and are not consistent with sound internal control over payroll.

Since timely certification is also essential, authorized and trained staff, as well as telecommunications access and computer terminals, must be available at all times. Reliable back-up plans are necessary should any of these resources be unavailable on a critical payroll processing date due to emergency or other circumstances.

Agencies are required to enter applicable payroll certification requests into the payroll system by 3:30 p.m. daily to ensure sufficient time is available for central review by DOA staff to validate certification entries, a critical compensating control. Late entries, either initial or correcting, make certification review more difficult or impossible. When a data entry error is detected during the review process, DOA must make corrections to avoid inaccurate payroll disbursements and/or voluminous and costly corrective action.

The table on the following page lists agencies and institutions that have failed to comply with one or more of the requirements for accurate and timely payroll certification.

Payroll Certification Compliance

Agency	Variance Amount (a)	Performed by DOA (b)	Submitted Late (c)	Corrected by DOA (d)
Commerce and Trade				
Department of Agriculture and Consumer Services			2	
Education				
Blue Ridge Community College			2	
Central Virginia Community College	\$ 40,341			
Northern Virginia Community College	957,944		4	
Radford University	33,457			
Thomas Nelson Community College	63,266			
Elected Officials				
Office of the Governor			2	
Health and Human Resources				
Department of Social Services	\$ 70,801			
Public Safety				
Brunswick Correctional Center	\$ 103,437			
Department of Military Affairs	44,060			
Powhatan Correctional Center	88,522			
Transportation				
Department of Transportation – Northern Virginia District	\$ 341,066			

Columns show the following:

- (a) Variance in dollars for agencies whose certified amounts varied from actual computed amounts by more than \$20,000 for any payrolls processed during the quarter.
- (b) The number of times DOA had to perform the certification function for the agency due to inadequate agency back-up.
- (c) The number of certifications that were submitted or altered later than the daily deadline.
- (d) The number of times DOA made corrections to agency certifications during the quarter.

Healthcare Reconciliations

Employee healthcare fringe benefits costs are covered by a combination of agency paid and employee-paid premiums. Agencies are required to return a *Certification of Automated Health Care Reconciliations* form to DOA by the close of the month following the month of coverage. This reconciliation annotates differences between healthcare eligibility records (BES) and healthcare premium payments collected through payroll deduction. The following table

lists those agencies that were late in submitting their certification or had problems requiring additional adjustments. Such problems may include incomplete or incorrect documents or required IAT's not submitted to DOA. Healthcare reconciliations for the months of September, October and November were due 10/31/03, 11/26/03 and 12/31/03, respectively.

Schedule of Late Health Care Reconciliations

	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>
<i>Education</i>			
George Mason University*	X	X	X
Frontier Culture Museum of Virginia	X		
Danville Community College		X	
Tidewater Community College	X	X	X
Gunston Hall Plantation	X		
<i>Elected Officials</i>			
Attorney General and Department of Law	X	X	X
Attorney General/Division of Debt Collection	X	X	X
<i>Health and Human Resources</i>			
Western State Hospital		X	X
Catawba Hospital	X		
<i>Transportation</i>			
Department of Transportation	X	X	X

* George Mason University is decentralized but is required to submit healthcare reconciliations to the Department of Human Resource Management by the end of the month following each quarter.



FINANCIAL MANAGEMENT ACTIVITY

DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll,

accounts receivable, indirect cost recoveries, treasury loans, and Fixed Asset Accounting and Control System (FAACS).

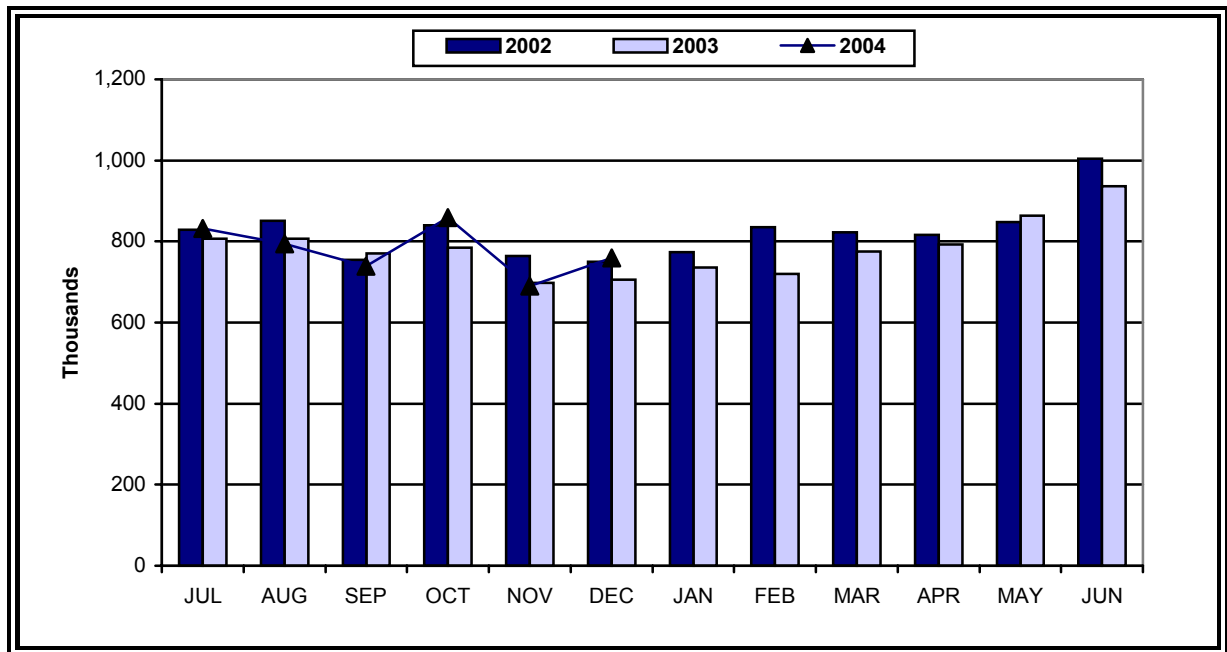
Commonwealth Accounting and Reporting System (CARS)

CARS activity trends provide important information about Statewide accounting. Currently, measures are used to track CARS transactions and error counts. A marked increase or decrease in the

number of CARS transactions may indicate that an agency has changed the way it accounts for an activity. Such change may require DOA review.

CARS Transactions

Fiscal Years 2002 - 2004



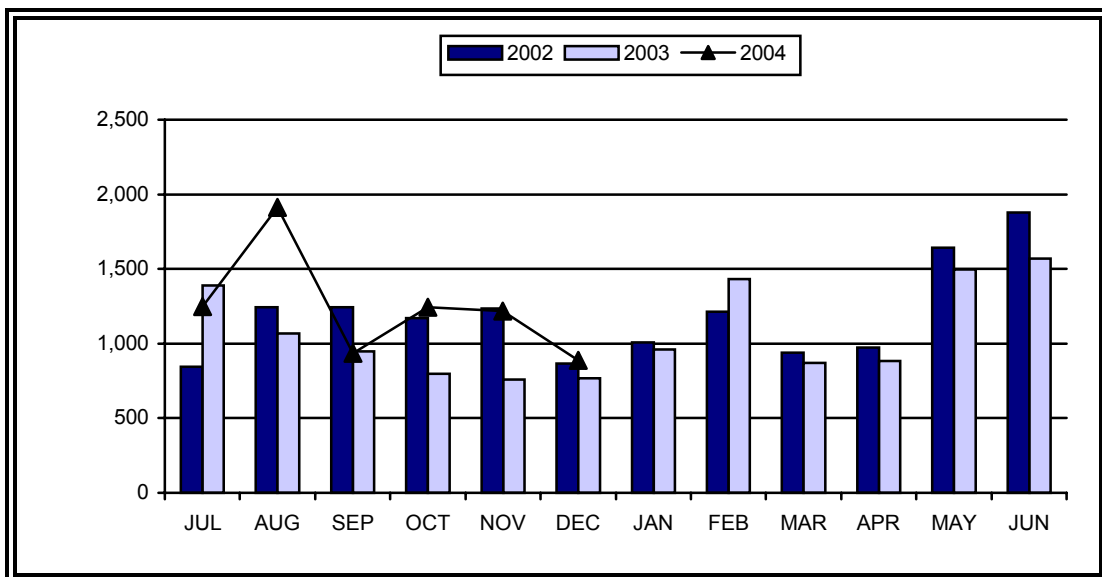
CARS Edits

One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the second quarter of FY 2004, the most frequent reasons cited for batches being sent to the error file were:

- ◆ Available Cash Negative
- ◆ Expenditures Exceed Allotments
- ◆ Certified Amount Not Balanced

The marked increase during the month of August was attributable to cash flow problems in several agencies and institutions. Agencies may avoid such errors by more closely monitoring cash and allotment balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available.

CARS Monthly Errors
Average Number of Daily Errors
Fiscal Years 2002 - 2004



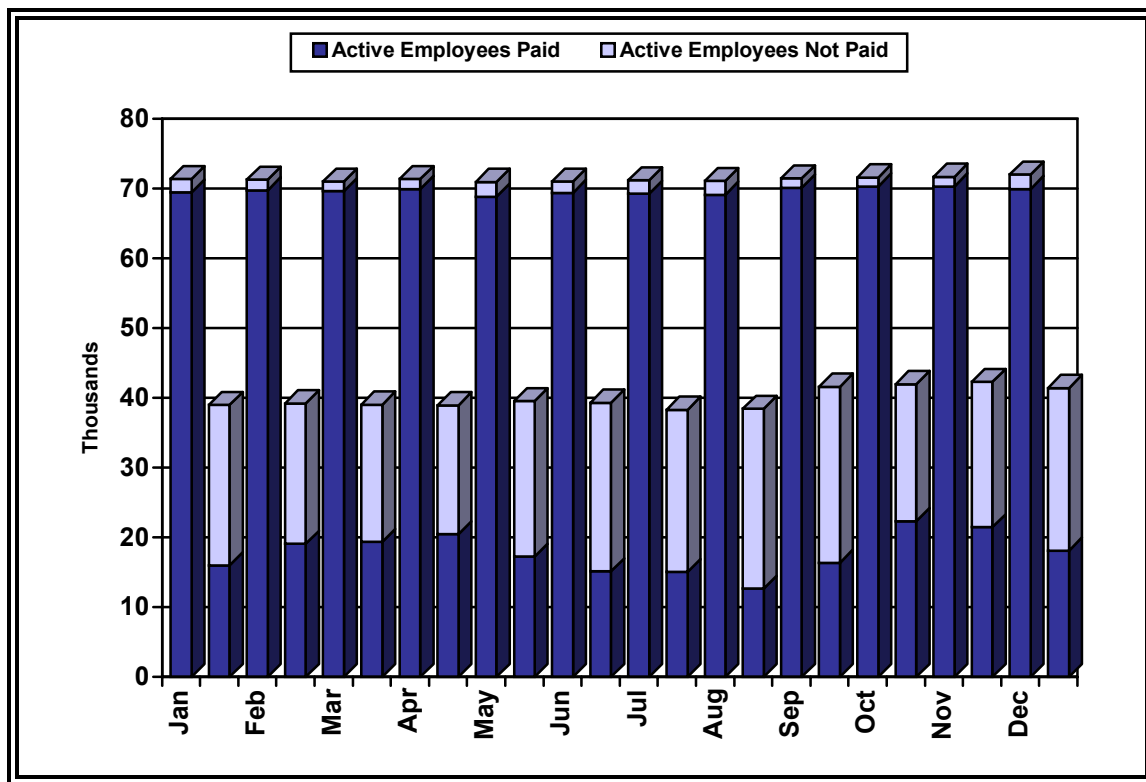
Payroll

The central payroll system for State government is known as *CIPPS*, the Commonwealth Integrated Payroll Personnel System. CIPPS is one of the largest payroll operations in the Commonwealth, serving 113,721 employees. Payroll services are also provided through eight decentralized higher education institutions.

Total gross payrolls for the Commonwealth were approximately \$395 million each month of the quarter. On average, 90,743 employees were paid each month, of which 70,081 were salary employees.

Commonwealth Integrated Payroll / Personnel System (CIPPS) Statistics

January 2003 – December 2003



NOTE: The first bar for each month represents salaried employees, and the next bar represents wage employees. Not all active employees are paid on a current basis. Examples would include employees on extended leave without pay and adjunct faculty not teaching during the current semester.

Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Benefit Participation by CIPPS Agencies

The Commonwealth offers a variety of benefits to State employees, including health care, optional retirement plans, deferred compensation, and flexible reimbursement programs. During the quarter, state employees purchased 15,583 savings bonds with a face value of over \$2.0 million.

Benefit Participation Number of Participating Employees

	As of 12/31/03	Comparative	
		As of 12/31/02	As of 12/31/01
Health Care			
COVA Care	79,871	N/A	N/A
Key Advantage	N/A	62,770	66,867
Cost Alliance	N/A	16,719	12,497
Aetna – PS	N/A	191	45
Aetna – HMO	N/A	1,202	250
Optimum Choice – Std	N/A	N/A	33
Optimum Choice - High	N/A	N/A	135
Kaiser	1,872	1,781	1,775
Cigna	N/A	N/A	2,727
Piedmont	N/A	138	110
Optional Retirement Plans *			
Fidelity Investments	268	286	296
Great West Life	15	15	20
TIAA/CREF	1,314	1,294	1,270
T. Rowe Price	66	64	66
VALIC	241	240	248
Political Appointee - ORP	84	76	82
Deferred Compensation *			
Great West Life	27,264	25,511	23,335
Flexible Reimbursement *			
Dependent Care	634	611	593
Medical Care	3,448	3,083	2,688

* Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Accounts Receivable

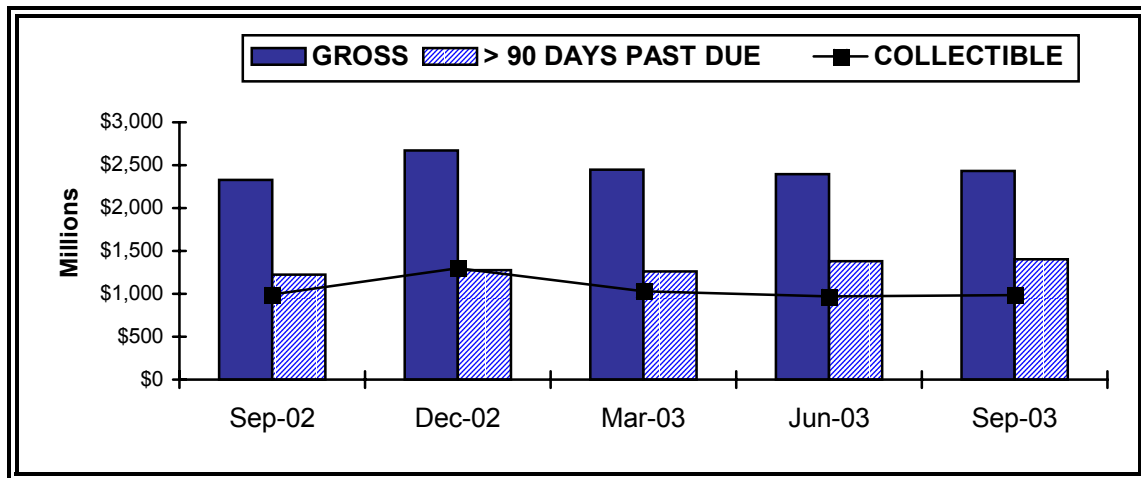
Chapter 48 of the *Code of Virginia* requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, collecting, reporting, and writing off accounts receivable. In addition, DOA provides technical assistance to agencies and institutions and uses statistical analyses and audit reports to monitor the ongoing effectiveness of agencies in managing their accounts receivable. Commonwealth agencies and institutions reported total gross receivables of \$2.4 billion at September 30, 2003, with \$983 million considered collectible. Receivables over 90 days past due as of

September 30, 2003 totaled \$1.4 billion. Of that amount, \$363 million was placed with collection agencies or attorneys for additional collection efforts, \$556 million was with the Department of Taxation's field agents and in-house collectors, and \$322 million was with the state court clerks and Commonwealth's Attorneys.

It is important to note that state receivables largely consist of taxes, fines, penalties, tuition and fees, and billings for several indigent care programs, which present numerous special problems in collection. "Trade receivables" typical of the private sector, which are generated by billings for the provision of goods and/or services, make up only a small portion of state receivables.

Gross, Past Due, and Collectible Receivables

September 2002 – September 2003



As of September 30, 2003, agencies expected to collect \$983 million (40%) of all receivables. About 24 percent of these receivables are due to the General

Fund, primarily for tax assessments. The balance (\$747 million) consists of amounts due to various nongeneral funds' activities.

Collectible Receivables by Fund

As of September 30, 2003

Fund	Source	Amount	Percent
General Fund (24%)	Medicaid	\$ 35,412,629	15
	Individual Taxes	105,493,391	45
	Business Taxes	61,956,436	26
	Courts of Justice	20,617,109	8
	Other	<u>11,288,824</u>	<u>5</u>
	Subtotal	234,768,389	99
	Interagency Receivables	1,488,254	1
Total General Fund Collectible		\$236,256,643	100
Nongeneral Funds (76%)	Medicaid	11,862,214	2
	Unemployment Taxes	50,620,860	7
	Transportation	35,495,544	5
	Child Support Enforcement	25,425,361	3
	Federal Government	67,433,287	9
	MHMR Patient Services	45,766,242	6
	Hospital	94,428,545	12
	Enterprise	35,019,073	5
	Higher Education	252,649,474	34
	Courts of Justice	22,587,228	3
	Other	<u>12,577,202</u>	<u>2</u>
	Subtotal	653,865,030	88
	Interagency Receivables	92,601,135	12
Total Nongeneral Fund Collectible		\$746,466,165	100
All Funds	Grand Total	\$ 982,722,808	100

Ten agencies account for 87 percent of the Commonwealth's gross accounts

receivable and 69 percent of the collectible accounts receivable balances.

Accounts Receivable Summary

Quarter Ended September 30, 2003

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
Department of Taxation	\$1,059,621,486	\$ 885,239,151	\$ 174,382,335
University of Virginia Medical Center	114,523,859	7,525,393	106,998,466
Department of Social Services	141,678,960	60,342,578	81,336,382
Virginia Polytechnic Institute and State University	59,306,987	1,267,801	58,039,186
Virginia Employment Commission	79,360,974	27,160,195	52,200,779
Department of Medical Assistance Services	86,559,239	39,247,030	47,312,209
Department of Mental Health, Mental Retardation, and Substance Abuse Services	87,047,896	41,281,654	45,766,242
Courts of Justice	415,688,446	372,484,109	43,204,337
Virginia Commonwealth University	35,985,197	2,216,634	33,768,563
University of Virginia	34,233,182	1,245,000	32,988,182
Total	\$2,114,006,226	\$1,438,009,545	\$ 675,996,681
All Others	321,036,214	14,310,087	306,726,127
Grand Total	\$2,435,042,440	\$1,452,319,632	\$ 982,722,808

In addition to internal administrative collection efforts, agencies have three other collection tools available to them. These are computerized matching and debt setoff programs at the Departments of Taxation, Lottery and Accounts, private collection agencies, and the Attorney General's Division of Debt Collection.

DOA requires state agencies and institutions to use the computerized matching and debt setoff programs for receivables that are 30 days or more past due. DOA also requires the use of private collection agencies on delinquent accounts that are 90 days or more past

due that are not sent to the Attorney General's Division of Debt Collection. The Office of the Attorney General requires state agencies and institutions to send accounts of \$3,000 or more and 90 days or more past due to the Division of Debt Collection.

These additional collection tools recovered \$3.8 million during the quarter ended September 30, 2003. The largest contributor was the private collection agencies, with collections of \$2.4 million. The debt setoff programs (Tax, Comptroller's and Lottery) collected \$872,860 and the Division of Debt Collection contributed \$451,468.

RECEIVABLES OVER 90 DAYS PAST DUE

As of September 30, 2003

AGENCY	Total Over 90 Days	With Collection Agency (1)	With Attorney General	Retained by State Agency
Department of Taxation	\$ 897,609,018	\$ 341,148,276	\$ 0	\$ 556,460,742
Courts of Justice (1)	322,151,259	0	0	322,151,259
Department of Medical Assistance Services	39,076,634	781,271	3,398	38,291,965
Virginia Employment Commission	30,269,675	5,313,902	1,079,437	23,876,336
Department of Social Services	30,113,993	0	0	30,113,993
University of Virginia Medical Center	25,870,983	0	0	25,870,983
Department of Mental Health, Mental Retardation, and Substance Abuse Services	11,465,556	0	0	11,465,556
Department of Transportation	9,265,705	0	5,559,246	3,706,459
Workers' Compensation Commission	3,840,001	155,275	1,439,169	2,245,557
Department of State Police	3,795,506	0	208,671	3,586,835
Total	\$1,373,458,330	\$347,398,724	\$ 8,289,921	\$1,017,769,685
<i>All Other Agencies</i>	26,386,074	5,499,049	2,033,813	18,853,167
GRAND TOTAL	\$1,399,844,404	\$352,897,818	\$10,323,734	\$1,036,622,852

(1) Amounts include accounts in the hands of Commonwealth's Attorneys functioning as private collectors, as well as the courts' debt and tax debt collection operation, which functions as a private collection agency.

Comptroller's Debt Setoff (CDS) Program

CDS is one of the debt setoff programs used by agencies to collect past due accounts receivable owed the State, primarily by businesses and individuals acting in a business capacity. Under

CDS, a payment made by the State to the debtor may be withheld, in full or in part, to satisfy the debt owed the State. CDS collected \$2.3 million during the second quarter of FY 2004.

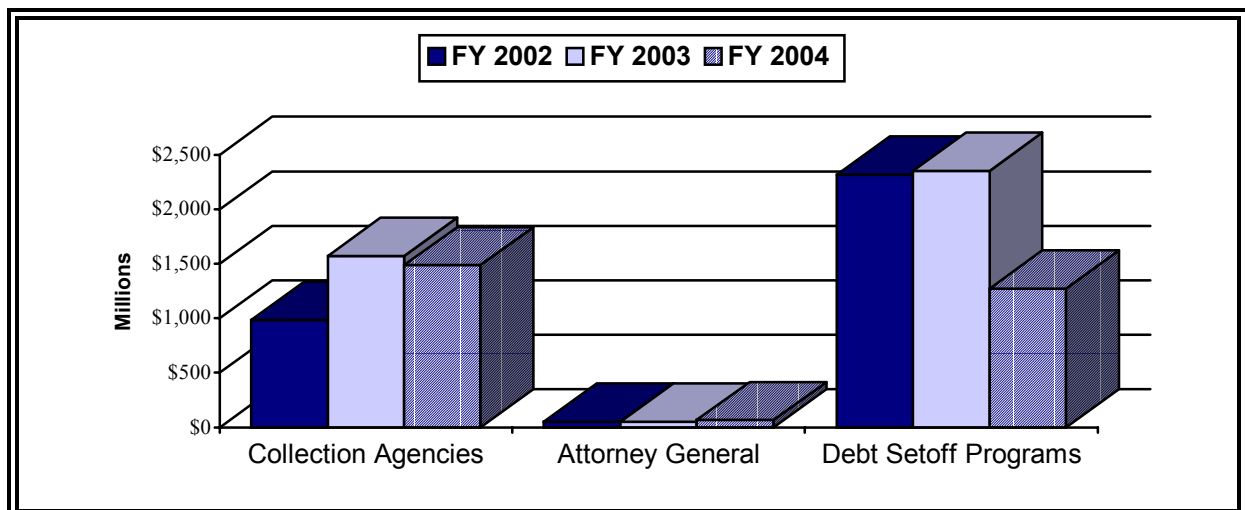
One way to measure an agency's effectiveness at managing its accounts receivable is to look at how efficient and effective collection procedures are on accounts that become delinquent. The table below looks at trend percentages of receivables over 90 days past due as a percentage of gross receivables for the ten agencies with the largest amounts of receivables over 90 days past due.

Percentage of Gross Receivables Over 90 Days Past Due

Agency	Percent at 9/30/03	Percent at 9/30/02	Percent at 9/30/01
Department of Taxation	85%	83%	80%
Workers' Compensation Commission	80%	82%	86%
Courts of Justice	77%	78%	78%
Department of State Police	54%	46%	7%
Department of Medical Assistance Services	45%	50%	51%
Virginia Employment Commission	38%	34%	32%
Department of Transportation	31%	10%	11%
University of Virginia Medical Center	23%	20%	25%
Department of Social Services	21%	7%	23%
Department of Mental Health, Mental Retardation and Substance Abuse Services	13%	12%	10%

Total Past Due Accounts Listed With Collection Resources

Quarter Ended September 30, 2003



The following table is prepared in accordance with the provisions of Section 2.2-603.E. (ii) of the Code of Virginia. It is the eighth report issued since the provision took effect on July 1, 1996. Twenty state agencies held over 99% (\$1.65 billion) of the Commonwealth's \$1.66 billion past due accounts receivable at June 30, 2003.

**Agencies with the Largest Volume of Past Due Receivables
As of June 30, 2003**

<u>Agency</u>	<u>Total Past Due</u>	<u>1 to 180</u> <u>Days</u>	<u>181 to 360</u> <u>Days</u>	<u>Over 1 Year</u>
Department of Taxation	\$ 945,845,615	\$347,358,860	\$199,495,585	\$398,991,170
Courts of Justice	353,278,981	40,456,815	29,274,197	283,547,969
Department of Social Services	106,644,892	656,155	670,218	105,318,519
University of Virginia Medical Center	68,039,665	54,784,289	13,212,170	43,206
Department of Medical Assistance Services	44,407,534	14,723,563	8,409,054	21,274,917
Virginia Employment Commission	35,499,925	14,407,491	6,329,969	14,762,465
Department of Mental Health, Mental Retardation, and Substance Abuse Services *	29,866,787	27,757,073	0	2,109,714
Department of Transportation	11,216,103	2,971,597	1,281,606	6,962,900
University of Virginia	9,991,065	8,736,389	883,068	371,608
Virginia Polytechnic Institute and State University	6,602,682	5,237,665	509,903	855,114
Norfolk State University	5,359,058	4,238,036	929,042	191,980
George Mason University	5,226,145	4,630,231	270,376	325,538
Virginia Commonwealth University	4,396,518	2,402,034	962,734	1,031,750
Workers' Compensation Commission	4,354,396	1,398,781	1,107,238	1,848,377
Department of State Police	4,171,459	1,930,269	712,561	1,528,629
Department of Motor Vehicles	3,554,460	3,175,787	371,280	7,393
Virginia Community College System	2,849,194	2,499,263	164,317	185,614
University of Virginia at Clinch Valley	2,810,935	2,808,857	1,932	146
Old Dominion University	2,293,080	1,895,931	197,401	199,748
State Corporation Commission	2,221,867	2,218,255	3,612	0
Total – Largest Dollar Volume Agencies	\$1,648,630,361	\$544,287,341	\$264,786,263	\$839,556,757
All Other Agencies	13,886,825	8,532,423	1,295,177	4,059,225
Grand Total Past Due Receivables	\$1,662,517,186	\$552,819,764	\$266,081,440	\$843,615,982

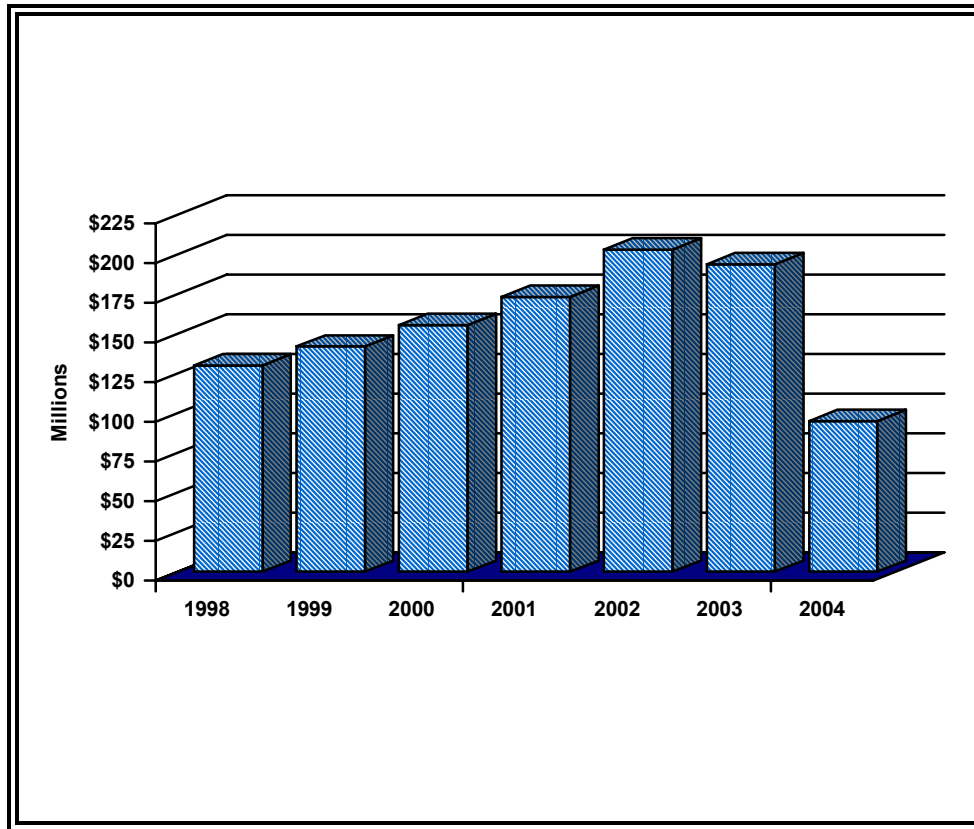
* The Department of Mental Health, Mental Retardation, and Substance Abuse Services wrote off delinquent patient accounts over 180 days past due whose collectibility is doubtful.

Indirect Costs

The Department of Accounts prepares a Federal Statewide Indirect Cost Allocation Plan (SICAP) annually that identifies the central service agency General Fund support provided to all State agencies. Agencies receiving Federal grants or contracts prepare indirect cost rate proposals or cost allocation plans that include both the

agency (agency specific overhead expenditures) and Statewide (overhead expenditures incurred by the State's central service agencies for support provided to other State agencies) indirect costs associated with the administration and management of federal, State, or private grant and contract activity.

Total Indirect Cost Recoveries*
For Fiscal Years Ended 1998-2004



*FY 2004 reflects indirect cost recoveries through December 2003.

Indirect Cost Recoveries From Grants and Contracts

Fiscal Year 2004

Funds	Year to Date		
	Higher Ed	Non-Higher Ed	Total
Nongeneral:			
Agency / Institution ⁽¹⁾	\$ 68,451,217	\$ 25,617,429	\$ 94,068,646
Statewide ⁽²⁾	371,161	292,865	664,026
Total Nongeneral	68,822,378	25,910,294	94,732,672
General:			
Agency (Cash Transfers)	0	27,727	27,727
Statewide ⁽³⁾	0	400,548	400,548
Statewide (Cash Transfers)	0	97	97
Total General	0	428,372	428,372
Total	\$ 68,822,378	\$ 26,338,666	\$ 95,161,044

- (1) The Department of Social Services records all federal monies received in CARS. However, it does not separately classify such receipts between direct and indirect. Included in the agency (non-higher ed) nongeneral fund category is \$16,774,254, representing the Department of Social Services' estimate of indirect cost recoveries received.
- (2) Statewide indirect cost recoveries that are appropriated back to an agency (non-higher ed) are recorded in the Nongeneral Fund category.
- (3) Statewide indirect cost recoveries that are not appropriated back to an agency (non-higher ed) are placed in the General Fund.

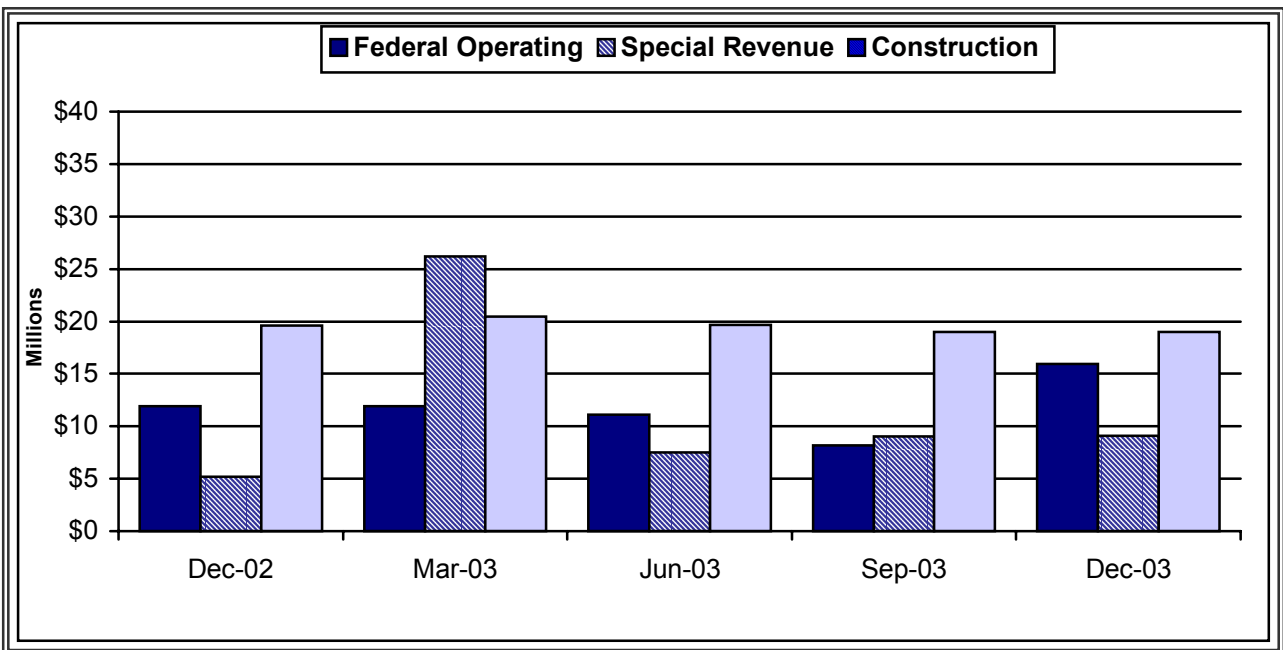


Loans and Advances

Treasury loans may be used to advance funds to a State agency or institution for a designated purpose prior to some form of reimbursement. Working capital advances and lines of credit are other methods for ensuring that an agency or

institution has sufficient operating cash, within its appropriation, prior to collection of revenues. The total of all types of treasury loans and advances as of December 31, 2003, was \$44.1 million.

Treasury Loans
Quarter Ended December 31, 2003



These advances are in the form of temporary loans funded on the basis of the following conditions:

◆ **Anticipation of Federal Operating Funds** supports the operations of federal grants and contract programs for which advance funding has been delayed or for those that require expenditure of funds prior to federal reimbursement.

◆ **Anticipation of Special Revenue Funds** supports the operations of non-general funded activities when collections are spread unevenly throughout the year while expenses require steady funding.

◆ **Construction** supports capital projects in anticipation of the sale of authorized debt or other financing for such projects.

Other types of loans and advances that are not charted include:

◆ **Authorized Appropriation Deficit**, which provides funding, when authorized by the Governor, under emergency conditions as described in §4-3.01 and §4-3.02 of the Appropriation Act. There were no deficit loans outstanding at December 31, 2003.

◆ **Working Capital Advances**, which provide operating funds for nongeneral fund projects when revenues to be used for repayment will not be generated within the twelve months required for anticipation loans.

Significant New Loans/Drawdowns

<i>Virginia Military Institute</i>	\$10,000,000
New loan to provide cash prior to the sale of 9 (c) revenue bonds for payment of obligations relating to renovation and enlargement of Crozet Hall and parking.	

<i>Department of Environmental Quality</i>	\$3,600,000
New loan and drawdown to provide cash to support federal program expenditures prior to receipt of federal funds from the Environmental Protection Agency (EPA).	

<i>Department of Conservation and Recreation</i>	\$1,600,000
New loan and drawdown to cover expenditures due to Hurricane Isabel prior to receipt of federal funds from the Federal Emergency Management Agency (FEMA).	

<i>Department of General Services</i>	\$1,600,000
Drawdown to cover operating costs of the state's electronic procurement system (eVA).	

<i>Virginia Institute of Marine Science</i>	\$1,000,000
New loan and drawdown to provide cash to support federal reimbursable program expenditures.	

Significant Loan Repayments

<i>Department of Motor Vehicles</i>	\$1,500,000
Three partial loan repayments due to receipt of revenues.	

Fixed Asset Accounting and Control System (FAACS)

FAACS is the Commonwealth's fixed asset accounting system. State agencies are required to enter capitalized assets (cost \$5,000 or greater) into FAACS. This system produces reports that help agencies track and generally manage their assets. It also provides financial information for the Comprehensive Annual Financial Report (CAFR) of the Commonwealth.

For the second quarter of FY 2004, the agencies and institutions of the Commonwealth that are central users of FAACS processed 4,977 FAACS transactions. This volume of FAACS transactions represents a 44.5 percent decrease from the first quarter of FY 2004 (8,970 transactions). The second

quarter of the fiscal year is typically slower than the first quarter in terms of FAACS transactions posted to the system. This percentage decrease is normal.

Second quarter FY 2004 volume is 42.8 percent lower than that of the second quarter of FY 2003 (8,698 transactions). The lower volume is attributed to the fact that three small colleges that have traditionally been central FAACS users have developed agency based fixed asset systems. These institutions are Virginia Military Institute, Longwood University, and Mary Washington College.

Number of Fixed Asset Transactions

Fiscal Years 2002 - 2004

